

Analytical report from conference

Conference	Common EU Energy Policy and the Energy Security of Slovakia
Description	International conference on the strategy of energy security of Slovak Republic in the context of development of the Common Energy Policy of the EU. The number of registered participants: 163
Venue/Date	Bratislava (Congress Hall of the Ministry of Foreign Affairs of the Slovak Republic, Hlboká cesta 2), 14-15 November 2007
Organizers	Research Center of the Slovak Foreign Policy Association and the Representation of the European Commission in Slovakia in cooperation with the Ministry of Foreign Affairs of the SR
Main partners	Stredoeurópska nadácia, Slovnaft, a.s., Slovenský plynárenský priemysel, a.s., Západoslovenská energetika, a.s., Transpetrol, a.s.
Partners	Slovenská inovačná a energetická agentúra, Slovenské elektrárne – Enel, a.s., Železiarne Podbrezová, a.s., Shell, s.r.o., Nafta Gbely, a.s., Hewlett-Packard Slovakia, s.r.o., Sesame Communication Experts
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Introduction

The goal of the conference was to contribute to the public discussion about the proposal of a long-term strategy of energy security of Slovak Republic and secondly to create a space for a scholarly discussion about the position of Slovakia in questions concerning the further development of the Common Energy Policy of the European Union.

The proposal of the Strategy of Energy Security of Slovak Republic until 2030 was devised by working group under the guidance of Ministry of Economy of Slovak Republic and on 24th September 2007 it was publicly presented for the first time.¹ It is a key document that brings a vision of a long-term development of Slovakia, because the development of energy sector directly influences all the sectors of development of the society, fields of public policy (economy, social development, domestic and foreign policy) and after all, on the quality of life of citizens of Slovak Republic. Strategy of energy security and its established goals far exceeds one election term and therefore is very important that it is based on a wide academic

¹ Text of proposal of the Strategy of energy security of SR is available on the web page of Ministry of Economy of SR <http://www.economy.gov.sk/index/go.php?id=3167> .

and public consensus that cannot be born without public discussion. Contribution to this discussion was the main goal of the conference.

Another goal of the conference was the reflection of the development of Common Energy Policy of the EU and its further specialization in context of Slovakia's interests. Common Energy Policy of the EU presents a reference framework for national energy policies of EU member states that demonstrates also the proposal of Slovakia's strategy of energy security. It is, however, a framework which is constantly changing and developing. Slovakia as EU member needs to identify its state interests in terms of further development of common EU energy policy, because this framework has a direct influence on energy policy of SR. It is important for Slovakia to have its own idea about the future form of the EU energy policy, to be able to name its interests and to enforce them on the level of the Union. Creating a space for discussion about Slovak attitudes to further development of the common EU energy policy was the second main goal of the conference.

The aim of this report is not a description or a repetition of speeches, which were presented in the panels of the conference. Presentations from the conference are available on the web page of the Slovak Foreign Policy Association.² Coming out of the mentioned speeches and discussion, we are now presenting this analytical report that maps the main points, arguments, observations, suggestions, but also questions which concern Slovakia's strategy of energy security and further development of the common EU security policy in the context of interests of Slovak Republic.

1. Information about conference proceedings

The program of the conference was divided into four panels:

The first panel „*Energy security: the EU policy and the strategy for Slovakia*“ was dedicated to comparison of the EU energy policy and policies of EU member states on examples of Slovakia and Czech Republic. The aim of the panel was to answer the question concerning the understanding, resp. on the contrary incompatibility of national energy policies of EU member states, further to evaluate the influence of the Common EU energy policy on national energy policies of EU member states, including the identifying the agenda that could be better and more suitable developed together on the level of EU and on the contrary, agenda that is better and more appropriate solved on the level of member states. The main speeches in the panel were presented by the State Secretary of Ministry of Economy of SR *Peter Žiga* who presented the Strategy of energy security of Slovak Republic, *Roman Schönwiesner* from the Representation of European Commission in Slovakia presented the current state and the aiming of Common EU energy policy and the Ambassador-at-Large for Energy Security *Václav Bartuška* presented a view from Czech Republic. The discussion was moderated by ambassador *Jaroslav Chlebo*, director of the Department of international economic cooperation of Ministry of Foreign Affairs of Slovak Republic.

Other three panels of conference were contently adapted to three pillars of the Common EU Energy Policy: maintainable economic development and climatic changes, security of external supplements and the development of internal market. The aim of the conference was to map the situation in Slovakia, especially to find out where Slovakia is and at the same time to find out its aims in each of the three mentioned pillars of the EU energy policy.

² <http://www.sfpa.sk/dok/energetika-14nov2007BA.html>

The second panel „ *Sustainable economic development and climate change* “ was about the prospects of Slovak economy and discussion about the energetic mix, which Slovakia needs for guarantying a persistent and maintainable economic growth. Discussion focused on looking for links between economic development/growth of Slovak Republic and needs and consumption of energy for economic development of Slovakia. And a very significant part of this discussion was the influence of EU measures concerning the fight against climate changes, especially establishment the goals to decrease the consumption of primary energy resources by 20 % until 2020. Panel was also dedicated to debate about the steps to be taken in Slovak circumstances to reduce the energy demands of economy, to cut down the consumption of hydrocarbon resources of energy and to evaluate perspectives for increasing the consumption of non-hydrocarbon and renewable energy resources. The main contributions in the panel were presented by *Ján Petrovič*, Director of Department of Energy Policy of Ministry of Economy of the SR, *Vladimír Benč*, Research Fellow from the Research Center of the SFPA and professor *Miroslav Zeman* from Technological University in Delft (Netherlands). The discussion was moderated by *Anton Marcinčin*, Economist of World Bank for Slovakia.

The third panel „ *Common EU external energy policy and the security of supplies* “ was dedicated to the security of hydrocarbon resources supplies– oil and natural gas for the needs of Slovak Republic and the EU in the context of development of the Common External Energy Policy of the EU, possibilities of diversification of the resources and routes of supplies of these raw materials for the needs of Slovakia and the EU and last but not least to the prospects for maintenance of Slovakia’s position as a strategically important transit country of oil and natural gas for the needs of the EU. The main presentations in the panel were given by *Marián Jusko*, Chairman of the Board of Directors of Slovnaft, a.s., *Philippe Boucly*, Chairman of the Board of Directors of SPP, a.s., *Martin Zlocha*, Director for Operations, Transpetrol, a.s. a *Ján Klepáč*, Executive Director of Slovak Gas and Oil Association. The discussion was moderated by *Alexander Duleba*, Director of Research Center of the SFPA.

The fourth panel „ *Competitiveness and the internal market* “ was dedicated to the influence of development of the internal market with electric power and natural gas in the EU for Slovak business and market with these commodities. The aim of the discussion was to review assumptions for the further development of a common regulating framework for energy networks in the EU and its member states with emphasis on the situation in Slovakia, also to analyze the interests of actors on the market – suppliers and consumers, possibilities for creating better conditions for enterprise, strengthening competitiveness on the market and evaluation of the role of regulating offices, including the scale of regulation of natural gas and electric power market on the EU level of the EU and on the national level. The main speeches of the panel were presented by *Jozef Holjenčík*, Chairman of Regulatory Council, *Christophe Poillion*, Member of the Board of Directors, SPP - preprava, a.s. a *Ivan Karovič*, Director of Division of Distribution of Electric Power, *Západoslovenská energetika*, a.s. The final words were said by *Roland Kobia* from the Cabinet of Commissioner for Energy of the European Commission who dedicated a significant part of his presentation to Commission’s next steps in the area of development of a Common Energy Market of the EU. Discussion was moderated by *Maroš Kondrót*, Member of National Council of SR and Head of the Parliamentary Committee for Economic Policy.

The next part of this report contains the summary of main recommendations presented during the conference in a relation to the proposal of Strategy of Energy Security of Slovak Republic and further development of the Common EU Energy Policy.

2. Summary of recommendations and remarks

2.1. Strategy of Energy Security of Slovak Republic

The goal of the Strategy of Energy Security of Slovakia with prospects until 2030, devised by the Ministry of Economy of SR, is to ensure the Slovakia's self-sufficiency in production of electricity, optimal price policy, pro-export capability of SR, strengthening the position of a transit country on the market with electricity, gas and oil and reliable supplying with thermal energy and other energy holders. Conference participants appreciated the quality of the devised material that gives a complex report about the state of energy in SR, identifies the problems that need to be solved and at the same time defines the goals for the future of the government policy.

During the conference few remarks, suggestions, or warnings on some circumstances of energy security strategy that are not considered properly in the strategy proposal were mentioned. These remarks can be divided into two groups: the first includes more general types of remarks that concern mainly the methodologies and ways of strategy composing and the second group represents more concrete remarks to individual parts of the strategy.

- ü The Strategy of Energy Security of SR defines 13 priorities that assume carrying out of 28 projects with investment as much as 464 billion Slovak crowns in the next few years. The text of governmental proposal assumes that the investments to proposed projects will be carried out with the direct participation of private investors and in some reasoned cases also as private and public partnership. Since all the proposed projects are legitimate cases, because their performing according to the strategy means increasing of energy security of Slovakia, which is an inseparable part of national security, the strategy does not define quite clearly and definitely the responsibility and financial involvement of the state. In other words, the strategy does not define which of the proposed project are in the highest public interest, that is in the interest of national security of Slovak Republic and therefore they have to be carried out disregarding the interest or fellowship of the private sector. The partnership of the public and private sector at performing of projects, which the strategy assumes, is very important, but the national security of SR cannot depend on whether it will or will not be reached in all the cases. The state, represented by the government, is a guarantee of national security and it therefore has to take steps that cannot be taken– in the public interest- by anyone else.
- ü The strategy lacks a clear separating line between the plan for the development of energy sector in Slovakia and the level of energy security. One is directly connected to the other, but between the development of energy sector as a very important, yet still just one of the many sectors of national economy, and the policy of energy security is a cardinal difference. In the narrow sense, the energy security of a country means in the first place reliable securing of energy supplies and it directly concerns mainly strategic infrastructures of its transport that individual country has at disposal in case of emergency situations. Concretely, building-up of oil duct connection Ingolstadt – Kralupy nad Vltavou – Litvínov which was financed by the Czech government (12 billion Czech crowns) with the aim to diversify the routes for oil supplies to Czech Republic, is an example of the state decision in the public interest- increasing country's energy security despite the fact that the oil duct is currently used only on 20 % and from the point of economic effectiveness it is loss. It is not possible to expect, that the private sector will perform non-profitable activities which are in the public interest. In the energy security strategy of SR is missing a clear indication of projects which are in the highest interest of the energy security of SR and therefore they are the subject of the state security policy including the preparedness of the government and citizens to share the related costs.

- ü The Strategy of Energy Security of SR is devised for the period until 2030. The projection of consumption of energy in terms of a long-term development of Slovak economy is based on the data of increasing GDP and consumption of energy according to individual kinds of energy in last few years what represents a big risk in terms of projecting of real future consumption. In the strategy is missing an analysis of a long-term development of Slovak economy and energy consumption in at least three basic scenarios: basic, optimistic and pessimistic. The estimation of energy consumption will be different, if we come out from the optimistic scenario that is that Slovak economy will in the next 23 years maintain the economic growth on an average level of 4-5% of GDP. It will be different, if we come out of lower estimates of economic growth. At the same time, the estimation of development of GDP is just one of the variables which necessarily have to be taken into account at projection of energy consumption (e.g. development of economy structure, resp. the prediction of development on the side of the main consumers – who in Slovakia and what energy they will need, changes in prices of individual energy holders, development of energy effectiveness, demographic trends and many others). Each of these variables may in a cardinal way change the prediction of energy consumption including the structure of necessary energy mix in the future. Such complete prediction of basic scenarios of needs/ especially energy consumption in SR with future prospects of next 20 years is missing in the strategy.
- ü Finally, the decision about the level of country's energy security that is the scenario of minimal level of securing the country with necessary amount of energy, including structure of energy holders, which will guarantee a maintainable economic and social development of the country, must be a political decision by the government. However, the estimation of this „minimalistic“ level/security scenario is very important for explicit deciding about the country's energy security form in the sense of how much and what kind of energy will have to be assured, how and if to choose domestic production, or if and how to import. Positive development above the framework of this minimalistic „security“ scenario of requirement of energy (higher growth of GDP, better prices of energy holders, increasing of energy effectiveness and such) is a question of economic development and economic policy of the government, and not a question of energy security and security policy of a state. The strategy does not differentiate quite clearly and definitely between the level of development of energetic sector/ economic policy and energy security of Slovakia/security policy.
- ü Several conference participants pointed out little ambitious intentions concerning the support of use of renewable energy resources (RSE) in SR. According to the strategy the biggest portion of investments - 44 % out of 464 billion Slovak crowns that are expected to be invested to energy projects should aim to RSE. However, on the list of 28 proposed projects, there are only 7 concerning reconstruction of electric power stations or building up of new hydro-electric power plants, in which cases the use of RSE can be assumed, especially of hydraulic power. Expected costs of these 7 projects by far do not comprise 44 % of total estimated investment costs until 2030 as the strategy expects. From the strategy and the list of projects is clear that the priority of energy security of SR is a building-up of new capacities for producing electric energy, especially nuclear blocks (finishing the building of 3rd and 4th block nuclear power plant (NPP) Mochovce and in the future NPP V3 Jaslovské Bohunice and NPP Kecerovce), the connection of electric sets, gas and oil duct networks, and building-up of underground natural gas stocks. Among the proposed projects are missing those that would be specifically focused on support of technological development, and using of non-hydrocarbon, non-atom sources of energy and increasing of energetic effectiveness and also thrifts in consumption.

Ü Discussion concerning the security of oil and natural gas supplies showed some links and facts that have strategic importance for energy security of Slovakia. Several are reflected in the textual part of the strategy proposal but they are missing in the list of assumed priority projects, which should be realized until 2030. In the case of oil, it is mainly finishing the building of stocks for strategic oil and oil products supplies in accordance with the norms of the EU and International Energy Agency, widening of transporting capacity of oil duct Adria and increasing of technological capacity of oil duct Družba, which would also allow the transport of Caspian oil. The longevity of the current Russian repositories, on which oil duct Družba is plugged on is approximately 20 years, new repositories will be plugged on the new transport routes. Projects allowing plugging Slovakia on new resources and supplies' routes from Russia, Central Asia, Near East, Africa and such should be a part of Slovakia's energy security strategy and they should be included in priority projects. In the case of diversification of natural gas supplies resources the strategic importance for energy security of Slovakia is to put the terminals on liquefied gas into service (LNG terminals) on Adriatic shore and on the Polish shore of the Baltic sea, including building-up of a North-South gas line, that would connect Northern and Southern Europe through the territory of Visegrad four countries. The security of oil and natural gas supplying represents an important agenda for international cooperation in the region of Central Europe and steps that Slovakia wants to take in this way should be a part of the energy security strategy.

2.2. Further development of the Common EU Energy Policy

The main remarks and suggestions that were presented during the conference in regarding the further development of Common EU Energy Policy in terms of Slovakia's interests can be divided into three basic thematic groups following the three pillars of the EU energy policy: the supplies security and external energy policy of the EU, sustainable economic development and fight against climate change, and finally, the development of a single market with electric energy and natural gas.

The security of supplies and external EU energy policy

Ü Thinking of the energy security in the EU is currently focused on the „security of the consumer“. Each country, or group of countries including EU, are developing the policy of energy security mainly in terms of guaranteeing the access to energy resources for their own needs, that is absolutely natural and understandable. The global point of view however needs a change in the contemporary “energy thinking”. It is necessary to move the discussion and understanding of energy security forward, and to think about it as a concept standing on three pillars: security for the consumer – security for the producer – and security for the transit countries. For the development of efficient international cooperation we need to overcome the „consumer “ concept of energy security and to think about the producers security that needs a long-term “security of markets” and transit countries that need to have a clear and long-term perspective for granting the transit of services. If assuming that we will be able to change the thinking about the energy security, we will be sooner able to reach also a bigger international security for all. For Slovakia as a strategic transit country for oil and natural gas transport from Russia to the EU markets such a change of thinking is very important, just like the real steps of the EU aiming to establish a new energy security architecture for Europe based on the partnership of the EU with Russia, Ukraine and Belarus.

Ü The EU policy towards neighbouring regions which are of strategic importance for supplies of primary energy resources– Eastern Europe, Central Asia and Caspian region, Near East, Southern Mediterranean and Africa – should stand on overcoming of

„consumer concept of energy security“. EU must be able to offer the producer and transit countries a real energy partnership for economic development. EU is and will be the biggest consumer energy market in the world in the next decades what represents a guaranty of a long-term marketing stability and economic development for the producers and transit countries in its neighbourhood. It is required that the EU is able to transform its consumer power to external power in relations with the countries which are important energetic partners for the EU. It is time for the transformation of the energy dialogues of the EU with Russia, the countries of OPEC, Eastern Europe, Central Asia, Mediterranean and sub-Sahara Africa to real energy partnerships for sustainable economic development that will consider long-term interests of the EU as a consumer, and also long-term interests of partner countries- producers and countries which are essential for transit of energetic raw materials. Through building the strategic energy partnerships with old and new producers the EU should try to eliminate the risk of oil deficit on the world market in the future. Long-term strategic partnerships between consumers and mainly new players on the world energy market - new producers – are becoming a part of international energy diplomacy architecture, exemplified e.g. in China’s policy in Africa (Sudan, Angola).

Sustainable economic development and fight against climate change

- Ü The conference discussion confirmed that there is a majority opinion in Slovakia concerning the value and future development of nuclear power engineering. Slovakia belongs to those EU countries which see the development of nuclear energy positively, what was also expressed in the proposal of Strategy of Energy Security of SR. Together with Czech Republic Slovakia became the co-organizer of European Nuclear Forum, which got together for the first time in Bratislava at the end of November 2007. On the conference, several presenters pointed out that nuclear power engineering has its future also in the EU and mainly in the context of fight against climatic changes, since the nuclear power engineering belongs to the cleanest sources of energy and new technologies will allow a safe and financially manageable storage and further use of burned fuel. Reaching a positive attitude in the EU in the question of further development of nuclear power engineering is in accordance with the interest of SR and will be one of the priorities of energy policy of SR in international context.
- Ü European Union is establishing ambitious aims in terms of investments to the development of use of RSE and new non-hydrocarbon technologies, which should reduce the dependence of the Union on consumption and fossil fuels transport. Paradoxical however is that the EU countries pay weekly more for imported oil, than they yearly invest to development of new technologies and use of RSE. The development of transportation and automobile industry, including expected growing consumption of fuels, is the key sector in terms of the future oil and oil products consumption in the EU. That is why the investments to developing technologies producing 2nd and 3rd generation of bio-fuels are of critical importance. The biggest risks of increasing portion of bio-components at production of fuels are: their low energetic value, small or almost no contribution to decreasing of emissions of greenhouse gases, growing competition in using soil for growing food or bio-components, high price and subsidies, pressure on deforesting of soil in countries focusing on production for bio-components, creation of new dependence of EU on countries with disposal of agricultural land and such. Several participants of the conference pointed out that there still is not an agreement in effectiveness evaluation of use of bio-fuels (e.g. the study of World bank) and a fact, that the EU does not have enough agricultural land for domestic production (that is in the EU) to be enough for

accomplishing the goals of the EU in terms of portion of bio-components on produced motor fuel.

Development of internal market with electric energy and natural gas

- ü The main topic of the fourth conference panel was the discussion about the 3rd liberalization package of the European Commission (published on 19th September 2007). The participants agreed on a critical assessment of the content of proposed measures and actions that the Commission chose for development of internal market with electric energy and natural gas. In the first place, several discussants pointed out the fact that it is hardly understandable why the Commission came out with the new liberalization package in a situation when the measures from the 2nd package have not been realized yet. Market with electric energy and natural gas assumes a long-term investment that can be planned and realized only if there are stable rules specifying the conditions on the market. New member states implemented the liberalization measures just recently and had too little time to be able to responsibly evaluate the consequences of these measures and make conclusions for the next process. Frequent change of rules brings uncertainty on the market, hardens the status of actors and their enterprising and finally, negatively influences the consumers. Remarks that were said in the discussion can be divided into two groups: 1) general remarks concerning the further development of internal market with electric energy and natural gas in the EU; and 2) remarks to the content of liberalization measurements of the Commission (mainly concerning the possessory „unbundling“and founding of European Regulatory Agency).
- ü According to several discussion, participants the electric energy and natural gas present two different commodities which have their own particularities and therefore is questionable, whether it is right to apply the same rules for the development of the market with one and the other commodity in the conditions of the EU. The main difference is that while the electric energy is produced within the Union, natural gas is mainly imported from non-member states of the EU. The structure of the creation of the price of electric energy and gas diametrically differs in the conditions of SR, since more than a half of the price of gas (according to the data of SPP, a.s. it is 70 % and according to the data of ÚRSO 58 %) is created by the purchasing price of gas that depends on external environment (situation on the world market and agreement with the producer of gas) and not on the internal environment/market in the EU. Regulating measures in the EU (e.g. possessory „unbundling“) weakens the European gas companies, partners/producers of imported gas of which are in most cases big state monopolies controlling the production and market with gas.
- ü For the further development of internal market with gas EU should focus on the following three priorities: 1) to provide better guarantees for the networks operators, 2) to create more favourable environment for long-term investments, and mainly 3) to strengthen the internal market through its integration in the EU. The assumption for the creation of internal market with gas in the EU is to connect gas networks and overcome the current division of the EU into three main regions in terms of the market with gas: North-Western Europe (rich network of LNG terminals enables to diversify the sources of supplies of gas and a real competition between the suppliers), and two regions which are dependent on supplies of monopoly suppliers – South-Western Europe (supplies from Northern Africa, especially Algeria) and Central Europe (supplies from Russian Federation). The interconnection of gas networks in the EU and the building-up of a missing infrastructure

(required investments as high as approximately 200 billion EUR) should be the priority of the EU at the development of internal market with natural gas.

- ü As for the assessment of measurement from the 3rd liberalization package of the Commission, discussion on the conference showed a mainly positive assessment of the proposal to strengthen powers and independence of national regulation offices in EU member states, less to a proposal on founding of a mechanism for controlling foreign investments, which would disable financial entry of natural gas suppliers from non-member states of the EU. Most of the critical assessments were expressed in connection with possessory unbundling and the proposal to establish European Regulatory Agency.
- ü The vast majority of conference participants agreed on the opinion that the experience of Slovakia from the implementation of unbundling as of 1st July 2007 is not positive: 1) unbundling did not influence the dominant status of producers of electric energy and natural gas, and 2) finally, it led to increasing the prices for consumers. Unbundling caused increase in administrative costs for the actors on the market, the decrease of coordination effectiveness in consequence of ownership disintegration and as it shows that it causes problems in synchronizing the strategic intents of newly founded subjects and also problems in communication between the owners and networks operators. According to the opinion of several participants, unbundling in the EU does not support the integration of national markets with natural gas (different national standards, insufficient cooperation between national operators) and it weakens the position of big European companies *vis a vis* producers and main supplier of natural gas from non-member states of the EU (big national monopolies), but also to gas companies from Asia and USA on the world market. In the discussion there were also suggestions that the problems brought by unbundling would be good to solve by founding of an independent networks operator or also by a so-called „regulated unbundling“.
- ü In the question of forming a European Regulatory Agency, the conference participants agreed that the agency definitely should not have competences to decide. It should be a coordinating institution, the purpose of which would be devising and proposing single norms for regulation of networking industries in the EU and providing consulting services for national regulation offices in the member states. There was an interesting proposal to consider the possibility of forming regional working places of the agency that would merge the member states with interconnected networks, e.g. in the Visegrad four.